



Kicking the can

While last week's budget wasn't as severe as first thought, the Government may only have been delaying the tough decisions that will surely come down the line. Tax Director with Cork's **Quintas** Group, Seán McSweeney, told Eoin Weldon that a lot more hardship may be on the way for taxpayers

The budget deficit in Ireland this year is expected to be €18 billion, meaning what is being paid out by the Irish Government is €18 billion more than it is taking in. With such a figure to make up, it was expected that there would be some harsh measures taken by the Government to bridge this gap.

According to Mr McSweeney, if the tough decisions are not made now then they will have to be made in the forthcoming budgets. "We had a state of the nation address by Enda Kenny on Sunday night, expenditure on Monday and the tax perspective on Tuesday. We thought the Government would come out with something great, but they have appeared to kick the can down the road.

"The state of the nation address was more party political, we were told the Government wanted to be fair and create jobs but then on Monday and Tuesday there was no link," he said.

He says while there were not too many surprises in the budget, it doesn't hide the fact that the budget deficit must be narrowed. Ireland has agreed to reduce its budget deficit to below three per cent of GDP by 2015, meaning more spending cuts or tax increases to come.

"You have the fuel al-

lowance cuts and the social welfare ones (which may be reversed) against the Croke Park agreement where staff are getting increments. The Government spoke about fairness, but where is the fairness there? This had been hedged on the fact that the various departments will gain more efficiencies, these are hypothetical until you see the results next year.

"From a tax perspective, the main changes were signalled; the household charge is a token gesture, it will just increase it in the future, they put it in there because it was promised to the EU. The Government is afraid of any backlash, the VAT rate increase is nothing major and income tax was left virtually untouched."

Mr McSweeney was, however, encouraged by the reduction of stamp duty and mortgage interest relief. "The reduction in stamp duty to two per cent encourages people to complete transactions, then you get VAT and the associated benefits from that. The mortgage interest relief increase is welcome, definitely.

"They have targeted this at people who are in negative equity. We need to get people out of the rental market, there has been a blockage in the rental market. Going on previous figures, there are about 30,000 potential

house buyers in each of the last three years waiting, when property prices start to rise it will be like a dam. The banks aren't lending so we will have to wait. The question you must ask is are we mad trying to incentivise people to buy houses again?"

The biggest sector of the market that was hit when the economy collapsed was construction. The most number of jobs have been lost in that sector, while the boom years were built on the unsteady foundation of property and developers recklessly constructing thousands of unnecessary properties, Mr McSweeney says there are ways to gradually build the sector up again.

"People are in negative equity, often the only asset they may have is their tracker mortgage, the bank would take that mortgage off them if they moved. People are just staying in their houses, instead of moving they are now building extensions. The issue here is a lot of these extensions are being done in the black economy."

His suggestion is that the Government incentivise this by offering tax breaks for anyone who does work on their home. "Why not give the home owner tax relief over ten years at a limit of €50,000 for an extension? You would gain €5,000 a year but have to file your invoices with revenue to get

it. The Government would know who the builder is and gain VAT and tax from that.

"It might be a cost in the first few years but by the end of the ten years, you would hope the economy could take the cost and it is better to get the upfront benefit. There could be a time limit on it of three years, people will be encouraged to do it now and they could go to the banks arguing they would gain a tax break for it."

With three more tough budgets to come, Mr McSweeney says the Government has taken the "easy option" this time.

"For a PAYE worker, the only hit that has been taken is €100 for their property, if they have one. If the person has two children there is no loss of allowance.

"Everything the Government is relying on is predicted on growth, if you don't have growth your tax revenues will be weaker, unemployment will be higher. There aren't enough incentives for growth out there. There are a lot of hard decisions ahead for this Government," he warned.

If the Irish economy does grow in 2012, the decisions the Government made will be lauded, however, anything else could result in a few hard economic years yet.

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Seán McSweeney, **Quintas** Photo: *Miki Barlok*